Brown, Brian (TM)

From: TMFeedback
Sent: Monday, January 10, 2011 9:30 AM
To: Brown, Brian (TM)
Subject: FW: Small Business Study
Attachments: PELTON - USPTO TM Litigation Comments - FINAL.doc

---

From: Erik Pelton [(b)(6)
Sent: Friday, January 07, 2011 11:51 PM
To: TMFeedback
Subject: Small Business Study

Attached, please find out comments in both Word format. If you have any trouble with the attachment, please let me know.

Erik Pelton
Erik M. Pelton & Associates, PLLC

Attorneys at Law
Erik M. Pelton*
Mark L. Donahey**
Benjamin D. Pelton***
of counsel

PO Box 100637
Arlington, VA 22210
(b)(6)

* NJ DC Bar
** VA Bar
*** VA DC & NY Bar
erikpelton.com

EMP&A®
Erik M Pelton & Associates, PLLC

January 7, 2011

Comments from Erik M. Pelton & Associates, PLLC
Regarding "Small Business Study"
by the U.S. Patent and Trademark Office

The following are the comments of the firm of Erik M. Pelton & Associates, PLLC of Falls Church, Virginia, in response to the Request for Comments published by the U.S. Patent and Trademark Office ("USPTO") on October 13, 2010 under the provision of The Trademark Technical and Conforming Amendment Act of 2010. Pub. L. No. 111-146, 124 Stat. 66 (2010). The full request for comments was published at http://www.uspto.gov/trademarks/bullies_survey.jsp.

I. Introduction

This study is valuable because those trademark litigation tactics or policies which unfairly and unjustly affect and burden small businesses are a drain to American innovation and ingenuity and the corresponding value in the economy. Reforms generated by the USPTO request for comments and study which have the potential to help level the playing-field deserve serious consideration. The suggestions made herein are an attempt to address and discuss a variety of possibiilities.

These comments will explore the background of the study and related issues, point to some examples of situations where small business trademark owners are disadvantaged along with possible changes to address them, and respond to the 12 individual sections of the USPTO's request for comments.

II. Study Background

The comment request and study are framed in a manner that may miss the crux of the issues involved. The behavior of specific companies or companies in general should not be 'on trial.'[1] Pitting small businesses against big businesses will not serve the trademark community well. Attaching blame to companies which have acted upon the advice and guidance of counsel and which have attempted to maximize the scope, protection, and value of their trademarks is not fair and is likely to only lead to a study featuring two sides: those assessing blame on other parties, and those defending the actions of the parties blamed.

Many or most of the tactics used by trademark plaintiffs are perfectly permissible, legal, and even encouraged under the current rules. Most tactics are not "bullying" and all of them are in theory equally available to small businesses – although it is apparent that small businesses make up a much higher percentage of trademark defendants than trademark plaintiffs.

We therefore believe it is advisable to answer the requests for comments without accusing specific companies whose behavior was most likely (a) under the advice of counsel, and (b) within the bounds of the current laws and procedures. The behavior of any party or parties is not the crux of the issue; the rules and the mechanisms themselves, which have an effect of impeding

the rights of smaller businesses and stifling their innovation, should be the focus of the study and any proposed changes.

The Important Role of Small Business Intellectual Property

Intellectual property is a significant – and growing – percentage of the U.S. economy, of the jobs created in the U.S., and of the exports to other countries. President Obama has acknowledged the significant role of intellectual property: "Our single greatest asset is the innovation and the ingenuity and creativity of the American people. It is essential to our prosperity and it will only become more so in this century." (March 11, 2010.)

Intellectual property-based industries account for more than $5 trillion of the U.S. gross domestic product (GDP).[2] For all IP industries, gross exports in 2004 exceeded $455 billion, a figure that represents more than 50% of all U.S. exports.[3] Small businesses make up a sizeable portion of all U.S. business and play a significant role in the development, creation, and use of intellectual property. More than half of the employees in the U.S. are at companies with less than 500 employees.[4] "[S]ince the mid-1990s, small businesses have generally created 60 to 80 percent of the net new employment" in the U.S.[5]

Because small business makes up a large portion of the U.S. economy, and because intellectual property is a key and valuable asset of businesses today, policies which effect small business and their intellectual property assets necessarily have a significant impact on American innovation and the American economy. Trademark litigation tactics or policies which unfairly and unjustly affect and burden small businesses are a drain to American innovation and ingenuity and the corresponding value in the economy.

The Costs of Unfair Trademark Dispute Tactics Which Impact Small Businesses

Companies which unfairly seek to enforce trademark rights today against alleged infringers face little or no risk in doing so. In fact, the system rewards them for doing so. If a company accuse a business of infringement and ends up having to follow through with legal proceedings, the accuser can always later drop the action, or seek a consent agreement that does not contain any real concessions, and lose nothing. Plaintiffs face minimal risk of being assessed damages or attorney's fees, and no such risk at the TTAB. These broad issues are is the crux of the problem, in our opinion.

The cost, delay and uncertainty in general caused by patterns of behavior which are either permissible or met with minimal sanctions or penalties, in particular before the TTAB, place significant burdens on defendants, particularly small business defendants, and have a large impact on the trademark practice as a whole and the overall value and benefits of Federal trademark registration. The longer these procedures remain unchanged, the more parties are able to take advantage of them and the more damage is done to a fair and just trademark system and trademark record that represents businesses of all sizes and that helps businesses produce and protect valuable intellectual property for the U.S. economy. Overreaching accusations of infringement and the stifling of otherwise legitimate trademarks has a large cost to the trademark community and to American business and innovation as a whole. "Overprotecting intellectual property is as harmful as underprotecting it... [c]reativity is impossible without a rich public domain." *White v. Samsung Electronics America, Inc.*, 989 F.2d 1512 (9th Cir. 1993)(Kozinski, J., dissenting).

III. Trademark Dispute Tactics: Examples and Possible Changes

Our law firm has handled dozens of trademark Opposition and Cancellation proceedings before the TTAB as counsel for both plaintiffs and defendants who are usually small businesses. More details about our experience are provided below in Section IV. As a result of this experience, we focus our comments primarily on examples and possible changes related to practices at the TTAB and the USPTO.

Several features of *inter partes* TTAB litigation tend to promote tactics that unfairly disadvantage small businesses. To the extent that these practices are permitted, common-place, and often successful, a plaintiff cannot necessarily be blamed for engaging in them. Nonetheless, these practices have a stifling effect upon the brands the growth of many small businesses and burden the economy as a whole. Reforms aimed at leveling the trademark dispute playing-field for small businesses – without changing the fundamental purposes and infringement analyses in trademark law – merit serious consideration. Such changes would not only benefit small businesses, but may help lead to overall dispute results which are more closely aligned with the purposes and rationales for trademark protections.

The solutions proposed are not meant to be perfect or comprehensive, but are intended to contribute to a discussion of the possibilities.

A. TTAB and USPTO Procedural Changes to Shrink Average Inter Partes Proceeding Duration

TTAB litigation is a very long process that often imposes years of uncertainty on small businesses seeking recognition of their trademark rights. The average time before a TTAB *inter partes* proceeding reaches final decision is approximately five years (260 weeks), with a median figure of 183 weeks.[6] The mere prospect of such a long period of uncertainty is a powerful incentive for small businesses to concede or settle, even when a plaintiff has a weak case. The alternative for a small business is to devote a significant amount of its limited resources toward years of legal expenses with the knowledge that any continued investment in the recognition of its brand could be lost if the TTAB sustains the opposition.

Part of the lengthy average TTAB case duration is the weeks or months taken to obtain rulings of motions and opinions, which is largely a result of understaffing and/or underfunding of the TTAB, especially over the last 18 months while it concurrently revised the Board Manual of Procedure. The TTAB has recently strived to speed up proceedings in a variety of manners, including the use of initial disclosures and advocating use of the Accelerated Case Resolution tools. The Board's ACR procedures have been used more frequently of late, but still in only a tiny percentage of cases.

Another delay potentially affecting trademark owners is the delay in getting to publication by the USPTO. Potential opposers are often aware of a mark they disapprove of shortly after it is filed. Yet because of the trademark application process, the mark may not be published for opposition for months or years. The delay harms small business owners who invest in new marks and then face decisions and/or delays in defending claims.

The net result of these delays is a TTAB system that takes far too long to adjudicate disputes, and strategic and/or or settlement decisions by defendants are impacted by that length. The result of such decisions, for small business defendants in particular, is often to default or capitulate

regardless of the merits – the delay and uncertainty of defending a trademark before the TTAB knowing it will could take years is a very large risk.

Possible changes:

- Discourage suspension for more than 60 days for settlement discussions unless good cause is shown.
- Provide USPTO with additional funding to hire more TTAB Administrative Trademark Judges and interlocutory attorneys.
- Provide USPTO with additional funding to hire more Examining Attorneys and personnel to reduce the application processing times.
- Use USPTO resources to shorten the application process.
- Permit total extensions of time to oppose greater than 30 days only with consent from the Applicant.
- Provide more information and templates regarding TTAB ACR options.
- Encourage mediation early in the TTAB process.
- Use USPTO resources to promote usage and benefits of the "Letter of Protest" procedures.
- Encourage the TTAB, provided it is sufficiently funded and staffed, to update its Manual of Procedure annually to avoid the necessity for wholesale and exhaustive revisions.

B. TTAB Procedural Changes to Discourage a Plaintiff's Intentional Delay

Some TTAB plaintiffs, when faced with a defendant who does not default, resort to a strategy of dragging out the proceedings. Plaintiffs may have little interest in a swift resolution of proceedings because the longer a proceeding looks likely to take, the more likely a small business is to settle or concede as they face greater costs, delays, and risks. Evasive, partial, or delayed discovery compliance is often used by such plaintiffs.

In cases where an opposer's delay and lack of cooperation merits intervention by the TTAB, a defendant's filing of a motion to compel and obtaining a ruling from the Board may delay the proceeding for six months or more. Even when the motion is successful and the opposer complies with the subsequent Board order, the applicant has been forced to expend significant resources and endure additional delay merely to compel the opposer to do that which it was already obligated to do under the rules.

Adding to these conditions allowing for practices which serve to delay the proceeding, parties in TTAB proceedings face little possibility of burdensome sanctions and no possibility of being imposed monetary sanctions. Fraudulent filings, evasive discovery, and the filing of baseless motions or responses to motions all go essentially unpunished because the TTAB has no sanction authority. Even Rule 11 type sanctions cannot be punished by reimbursing the affected party for the attorney's fees and costs incurred as a result of the sanctionable behavior. The delay caused by these types of filings generally benefits the plaintiff who seeks delay or nuisance.

Even defending a TTAB case which the plaintiff fails to prosecute takes considerable time, effort, and expense.[7]

These unnecessary delays affect strategic decisions by the parties and result in less disputes being decided on the merits or settled on a level playing field, which harms the trademark system, the growth and innovation of small businesses, and the interests of consumers.

Possible changes:

- Put parties on notice at the commencement of proceedings regarding their discovery obligations and the penalties or effects of failure to comply. When dilution is alleged by a plaintiff, include information about the particular burdens and requirements for showing fame. Encourage TTAB to enforce discovery obligations quicker and more forcefully.
- Allow for stronger TTAB sanctions and awards of attorney fees in cases of egregious behavior.
- Encourage TTAB and USPTO to refer egregious behavior by counsel to relevant bar associations.
- Change law so that once a plaintiff in a TTAB proceeding serves discovery on the defendant, a trademark claim can only go forward in another venue with consent from defendant. A claim could be filed in another venue, but absent good cause or new or changed used of the allegedly infringing mark, a plaintiff would need to await final determination from TTAB before it could proceed.
- Reduce and minimize the effect of any prior decision involving a third party that was not the result of a decision on the merits.
- Encourage TTAB to defer to federal courts less often.

C. Potential Changes to Defenses and Causes of Action to Diminish Plaintiff's "Mulligan" Opportunities

One of the most significant advantages Plaintiffs have over small business applicants in TTAB proceedings is the right of appeal of the TTAB decision to either a Federal District Court or the Court of Appeal of the Federal Circuit. When facing small businesses, opposers have little incentive to devote significant resources to prosecuting their cases when they are aware that the length – and expense – of the dispute is likely to force smaller applicants to capitulate before the case reaches final decision, and more likely the longer the plaintiff can extend the proceeding. In the unlikely event a case ultimately reaches the Board for a decision on the merits for the applicant, the plaintiff is free take a "mulligan" and supplement the record with new evidence on appeal to a Federal District Court.

Plaintiff's in TTAB proceedings against use-based applications and registrations also have the option of taking a "mulligan" at any time during a TTAB proceeding by filing an infringement claim in Federal District Court which almost guarantees suspension of the TTAB proceeding pending the District Court proceeding. This option provides another safety net for plaintiffs at the TTAB who choose not to diligently prosecute their claims. [8] A plaintiff at the TTAB can always withdrawing the case with prejudice if they do not wish to proceed or risk a decision against them[9].

For a variety of reasons, which could include the merits but also include the strategies and reasons detailed herein, many TTAB defendants choose to default and fail to file an Answer. Plaintiffs generally list these cases as examples of success infringement enforcements in complaints and in testimony, even though no decision on the merits was reached. The cumulative effect of so many defaults may be a "chilling effect" created by a false appearance that a plaintiff has succeeded in many prior cases.

In addition, a small business which invests in registering a mark with the USPTO can still face a later action for infringement or cancellation. This disconnect – in our use-based system, a registration is not a guarantee against claims of infringement – discourages many small businesses from spending the resources to apply to register a trademark as its benefits, while

numerous, do not fully reduce the exposure of later litigation regarding an accusation of infringement.

Remedying these imbalances would help protect all trademark defendants in general, and small businesses owners in particular.

Possible changes:

- Provide a defendant in a TTAB proceeding with automatic standing to seek a Declaratory Judgment in District Court. This would provide defendants with a speedier alternative and make plaintiff's consider the risk of facing such an action before instituting an opposition or cancellation proceeding. It also levels the 'mulligan' option mid-way through a proceeding available now only to plaintiff's generally.
- Recognize an affirmative equitable defense of "trademark bullying" which could lead to dismissal of all claims, or create such a defense by statute
- Create a Federal cause of action for abuse of process in administrative TTAB proceedings which allows for the damaged party to seek damages.
- Create a statutory defense making registered trademark owners immune in federal litigation from statutory or other damages and from awards of attorneys fees or costs. By encouraging more people to register with the provision of additional benefits and security obtained with a registration certificate, the USPTO records will better reflect marks in use and will serve the public even better. This change would also provide greater incentive to parties to monitor the USPTO records and to file letters of protest or notices of oppositions when applicable; with the general benefit of raising potential disputes sooner rather than later. This benefits all parties involved as disputes are easier to resolve the less time *and money has been committed to the trademark by the accused infringer.*
- Reduce the effect of any prior decision involving a third party that was not the result of a decision on the merits.

D. Other Miscellaneous Changes to Make Trademarks More Equitable for Small Businesses

Small businesses often receive baseless 'cease and desist' letters. They often request action within a matter of days, hardly allowing for time to find and consult and qualified attorney. The recipients – particularly those which have only recently adopted a mark – face the burden, on the one hand, of paying legal fees to fight back along with uncertainty in the interim while a dispute unfolds, or, on the other hand, capitulating even if the claims in the demand letter are baseless.

> *Possible change:* Create a cause of action for a baseless or malicious intellectual property threat. Allow for recovery of damages and attorney's fees.[10]

The small business community is underrepresented in Congressional hearings related to trademark issues, other public agency intellectual property hearings, conferences and seminars, and at the Trademark Public Advisory Committee (TPAC) of the USPTO.

> *Possible changes:* Encourage and invite participation from the SBA and from the small business community in future Congressional hearings and Federal agency activities that relate to trademarks. Encourage the Secretary of Commerce to select members of TPAC with some background dealing with small business issues.

Small businesses are unfairly damaged by overreaching activities related to U.S. Customs and Border Protection (CBP). Claims of counterfeiting and CBP seizures often relate to small

businesses. Many such claims and seizures are justified, but those which are not are infrequently challenged.

Possible changes: Educate importers, CBP officials, and trademark owners regarding the dangers of overreaching trademark enforcement attempts. Create an easier and more affordable mechanism to appeal CBP seizures which are based on alleged trademark violations. Make any presentations made by trademark owners to CBP officials publicly available and searchable online. Allow and encourage parties who perceive they are the targets of overreaching enforcement efforts to make presentations to CBP officials. Penalize parties for attempting to overreach in using CBP to enforce their

Information about intellectual property related to the work of other Federal agencies is inconsistent and sparse. Public information and education from sources other than the USPTO website regarding the role, value and significance of trademark protection are minimal. Information about the over-enforcement of intellectual property – and the potential harm it causes – is nonexistent.

Possible changes: Increase USPTO and inter-agency efforts to create opportunities to educate the public and the business community about trademarks. Send USPTO representatives to speak and exhibit at business conferences, especially small business conferences. The USPTO Trademark Expo is a wonderful example of educational programs that serve a good purpose.

IV. USPTO Request for Comments Questions 1 through 12

1. Please identify whether you are a trademark owner or practitioner...

Erik M. Pelton & Associates, PLLC ("EMP&A") is a boutique trademark law firm located in Falls Church, Virginia. Established in 1999 by Mr. Pelton following two years of working for the U.S. Patent and Trademark Office in Law Office 107, the firm has registered more than 1,300 U.S. trademarks for clients who are overwhelmingly small businesses. The firm has represented dozens of small business plaintiffs and defendants in all phases of Opposition and Cancellation proceedings.[11]

EMP&A is itself a small business having three full time employees. The firm markets itself frequently as TM4SMALLBIZ.COM® via www.tm4smallbiz.com. We are members of the National Small Business Association, the National Federation of Independent Businesses, and the Greater Falls Church Chamber of Commerce, where Erik Pelton serves on the Board of Directors.

Mr. Pelton and EMP&A own five registered trademarks and two pending USPTO applications, including: APPTORNEY®, SMAR(TM)ARK®, IPELTON®, TM4SMALLBIZ.COM®, EXPERIENCE IS OUR TRADEMARK. TRADEMARK IS OUR EXPERIENCE℠, and the firm logo: EMP&A ®
Erik M Pelton & Associates PLLC

Erik Pelton is actively involved in the American Bar Association's Intellectual Property section (ABA-IPL), which has selected him a chapter editor for its 2011 *Annual Review of Intellectual Property Law Developments* and as a speaker at its upcoming 26th Annual Intellectual Property

Law Conference. EMP&A is also active in membership of the American Intellectual Property Law Association (AIPLA) and the International Trademark Association (INTA). The firm has also taken an interest in and attended many of the quarterly meeting of the Trademark Public Advisory Committee during the last year.

Erik Pelton has spoken about trademarks and other intellectual property issues for several conferences, webinars, podcasts and radio interviews with audiences consisting primarily of small businesses. Associate Attorney Mark Donahey was recently appointed to a position on the National Small Business Association's Economic Development Committee.

2. Please describe any instances of which you have first-hand knowledge where a small business may have been the target of litigation tactics attempting to enforce trademark rights beyond a reasonable interpretation of the scope of the rights granted to the trademark owner.

- See general discussion in Sections III above.

3. Please describe situations where you have been involved in receiving a cease-and-desist letter...

- Our firm has represented the recipients of dozens of cease-and-desist letters. Many have been arguably meritless. While often times a small business recipient may change its mark, it is often due to lack of funds to litigate rather than the merits of the alleged infringement. In addition, many claims in letters have been abandoned by the accuser following the sending of a substantative response by the accused.

4. Please describe situations where you have been involved in trademark litigation in state or federal courts...

- See general discussion in Sections III above.

5. Please describe situations where you have been involved in opposition/cancellation proceedings instituted at the USPTO against small business owners...

- See general discussion in Sections III above.

6. Do you think trademark "bullies" are currently a problem for trademark owners, and if so, how significant is the problem?

- See general discussion in Sections III above.

7. Do you think aggressive litigation tactics are more pervasive in the trademark area than in other areas of the law?

- As we do not practice extensively in other areas of law, we are unable to provide a well informed response to this inquiry.

8. Do you think the USPTO has a responsibility to do something to discourage or prevent trademark bullying? If yes, what should the USPTO do?

- Yes, the USPTO should protect the rights of all trademark owners, including small businesses, and prevent overreaching enforcement efforts. Helping to prevent bullying would facilitate achieving those goals.
- See general discussion in Sections III above.

9. Do you think the U.S. courts have a responsibility to do something to discourage trademark bullies? If yes, what should the U.S. courts do?

- The primary responsibility of U.S. courts should be fair and just application of the law.

10. What other U.S. agencies may have a responsibility to do something about the problem?

- The Department of Commerce, Customer and Border Patrol, Department of Justice, Fair Trade Commission, and all other agencies which directly or indirectly deal with intellectual property issues. For specifics suggestions, see Section III above.

11. Do you think Congress has a responsibility to do something to discourage or prevent trademark bullying? If yes, what should Congress do?

- See discussion in Sections III above.

12. Please provide any other comments you may have.

- See discussion in Sections I, II, and III above.

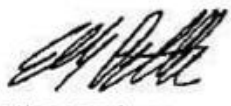
IV. Conclusion

Trademarks and other intellectual property assets essential to the American economy today, and ensuring the both large and small businesses have equal opportunities to realize the benefits of trademark protection is an important priority. Under the current rules and practices, small businesses are often disadvantaged in defending their trademarks, and plaintiffs have a great incentive – with relatively small risks – to extend or even overextend the reach of the their trademarks as much as possible.

A fundamental tenet of the trademark system in the United States is the protection of public consumers. By enhancing the fairness of the trademark system and statutes, the public will be the beneficiary of a healthier and more fair scheme.

By making some of the reasonable and relatively small adjustments to the rules and law and to practices at the USPTO and the TTAB, companies of all sizes will benefit. The changes proposed here are by no means comprehensive or perfect. But by continuing the study and exploring the comments of all interested parties, surely some changes for the better can be discovered. By exploring such changes, the trademark system as a whole will be stronger and better, and companies large and small across the American economy will have greater opportunities to grow and protect their brands and further American ingenuity, creativity and success.

In closing, we also note that the attention and promotion given to this request for comments and study by the USPTO has been disappointing. The request for comments was not very prominently featured on the USPTO website and, to date, has never been mentioned on the front page of the USPTO website, on the Director's blog, in a USPTO press release, or via the USPTO's Facebook or Twitter feeds.



Erik M. Pelton
ERIK M. PELTON & ASSOCIATES, PLLCS

[1] The study created by Congress requests a report covering "(1) the extent to which small businesses may be harmed by litigation tactics by corporations attempting to enforce trademark rights beyond a reasonable interpretation of the scope of the rights granted to the trademark owner; and (2) the best use of Federal Government services to protect trademarks and prevent counterfeiting." Trademark Technical and Conforming Amendment Act § 4.

[2] Robert J. Shapiro and Kevin A. Hassett, "The Economic Value of Intellectual Property," USA for Innovation, 10/05.

[3] Nam D. Pham, PhD., "The Impact of Innovation and the Role of Intellectual Property Rights on U.S. Productivity, Competitiveness, Jobs, Wages, and Exports," NDP Consulting, April 2010; U.S. Department Of Commerce, "Bush Administration Officials Update Congress On Intellectual Property Enforcement Efforts," Press Release, 26 July 2006.

[4] 2002 Economic Census.

[5] U.S. Small Business Administration, *The Small Business Economy: 2009*, http://www.sba.gov/sites/default/files/Small_Business_Economy_2009.pdf.

[6] *See* presentation of Chief Judge Rogers at the September 2, 2010 TPAC meeting at http://www.uspto.gov/about/advisory/tpac/2010sep02-ttab_statistics-tpac.pdf.

[7] See for example proceeding No. 91190682 which was recently terminated for a failure to prosecute more than 18 months after the commencement of the proceeding.

[8] For example of such proceedings in which this firm represented the TTAB defendant, see TTAB proceeding Nos. 91180499, 91166420, and 92045150.

[9] For example, this firm has represented several defendants in TTAB proceedings in which the plaintiff has withdrawn its claims with prejudice in the absence acquiescence by or settlement with the defendant. See TTAB proceeding Nos. 91175031; 91179089; 91188868; 91177827; 91179644; 91189782; 91189561; 92048026; 92051217; 92049141; 92050005; & 92048575.

[10] Idea courtesy of Eric Goldman via his Technology & Marketing Blog at http://blog.ericgoldman.org/archives/2010/10/shining_the_spo.htm

[11] See TTAB proceeding list at: http://bit.ly/Pelton-TTAB.